

**ECONOMIC TRENDS AND DEVELOPMENT
STRATEGIES FOR THE WESTERN NEVADA
DEVELOPMENT DISTRICT**



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Table of Contents

Introduction.....	1
Structural Changes in the U.S. Economy.....	2
Future National Employment Growth	5
Trends in National, State of Nevada, and Western Nevada Development District Sources of Total Personal Income	8
Variables Influencing Employment and Income	14
Framework for Policy Development.....	17
Community Economic Development Strategies.....	19
Summary	25
References.....	27

FIGURES

Figure 1. Total U.S. Goods-Producing and Service-Producing Employment	3
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TABLES

Table 1. Why Are There Changes in Proportional Share in Goods-Producing and Service-Producing Industries?	4
Table 2. Projected Total Employment by Major Sources in U.S.....	6
Table 3. Projected Output by Major Economic Sectors for 2008 and 2018	7
Table 4. Proportionate Share of Total Personal Income for the United States, State of Nevada and the Western Nevada Development District, 2001 and 2010	9
Table 5. United States, State of Nevada and Western Nevada Development District Under and Over 65 Years of Age, 1980, 1990, 2000 and 2010.....	11
Table 6. Educational Attainment for the United States, State of Nevada, Western Nevada Development District and Individual Counties, 1980, 1990, 2000 and 2010.....	12
Table 7. Variables Influencing Employment and Income.. ..	15

Introduction

Policy-makers throughout the United States are looking for ways to increase individual incomes and employment. With these goals in mind, public and private leaders at the local, state and national levels are trying to outline strategies for community economic development. These efforts are intensified in periods of high unemployment and economic instability.

Community economic development takes many forms. Industrial development organizations, economic development committees, business groups and government officials develop industrial parks, prepare promotional brochures and sponsor special events to stimulate income and employment at the local level. State officials employ industrial developers, provide special tax incentives and promote tourism. At the national level there are regional development districts, direct credit or loan guarantees for businesses, federal agency support to local government, protective tariffs, emergency employment programs and assistance to individuals.

The current economic situation - especially continuing high unemployment and international competition - has increased the role of governments at all levels. Some argue that government intervention does little to stimulate productivity or increase employment at the national level, but merely redistributes economic activity from one geographic region to another. They say the entire effort is a zero-sum game, benefiting one group of people at the expense of another.

Others argue that public investment can increase overall economic efficiency by increasing the flow of information and by reducing market imperfections which inhibit economic growth. They suggest lowering barriers to entrepreneurial entry will generate new sources of economic activity. They believe that investments in infrastructure, promotion, financial assistance, etc., will net higher employment and income. However, those who advocate public involvement must recognize a number of fundamental changes in the economic structure of the United States.

Structural Changes in the U.S. Economy

When a public entity invests in economic well-being, it rarely starts with a comprehensive analysis of the opportunities that communities have for development. Most investments reflect a historic preoccupation with goods-producing industries, especially those that rely on natural resources or manufacturing. For many years, policy-makers have viewed manufacturing, mining, farming, forestry and construction as the most effective vehicle for creating jobs and stimulating long-term income growth. This preoccupation grows out of the long-standing belief that goods-producing industries are the source of all wealth and that access to all services is dependent upon them. This theory says that a community can improve its income by producing more goods and selling them to buyers outside the community. In other words, the relative well-being of any locality, state or nation depends on its ability to produce and export goods.

This simplistic application of *export base theory* has limited relevance in today's interdependent economies, in which individuals must choose between costly life insurance programs, complex health care and other services and goods such as computers, stereos and recreational vehicles. Contemporary community economic development policy must realize that both goods-producing industries and service-producing industries play a fundamental role in generating jobs and income (Smith and Pulver, 1981; Smith, 1984; Porterfield and Pulver, 1991). It must recognize that per capita income can be increased not only through the export of more goods and services but by reducing imports of goods and services which can be produced as efficiently within the community.

The United States economy has changed substantially over the past 70 years. While employment in goods-producing industries dominated prior to the 1940s, in 1943 roughly half of American workers were involved in the production of goods. By the 1980's, well over two-thirds of the workers and self-employed in the U.S. were in service-producing industries. Prior to the last decade, the absolute number employed in the goods-producing sector remained relatively constant at approximately 25 million people; however, nearly a quarter of these jobs have been lost since 2000. Since 1940, the number employed in service-producing industries has grown from approximately 20 million to nearly 115 million (see Figure 1).

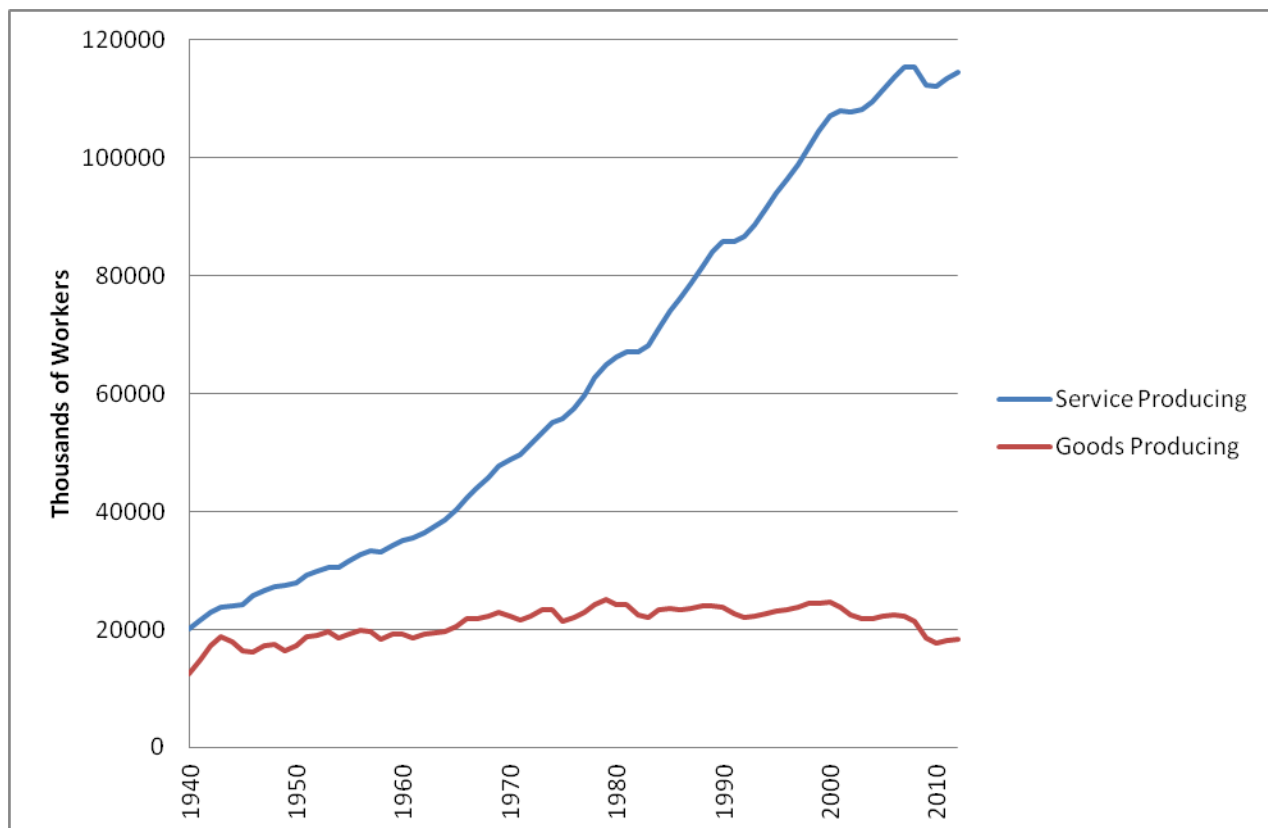


Figure 1. Total U.S. Goods-Producing and Service-Producing Employment.

Goods-Producing Industries

Mining
Construction
Manufacturing
Agriculture

Service-Producing Industries

Wholesale and Retail Trade
Transportation and Warehousing
Information
Finance and Insurance
Real Estate and Rental and Leasing
Professional, Scientific, and Technical Services
Management of Companies and Enterprises
Administrative and Waste Management Services
Educational Services
Health Care and Social Assistance
Arts, Entertainment, and Recreation
Accommodation and Food Services
Other Services, Except Public Administration
Government

There are three fundamental reasons for reduction in percentage share of goods-producing employment (Table 1). First, the increased efficiency in production of goods has released human (labor) and other resources for application in other sectors of the economy. Because of increased production efficiency, the percentages of the U.S. work force required to meet the demands for food, fiber, minerals, construction and manufactured goods has declined.

Table 1. Why Are There Changes in Proportional Share in Goods-Producing and Service-Producing Industries?

- Increased Efficiencies in Production of Goods-Producing and Service-Producing Industries
 - Increased Personal Incomes and Changes in Demand
 - Changes in World Economy
-

Second, the increase in real wealth, that is, wealth net of inflation, has allowed individuals to demand what the service-producing sectors provide. Nearly every household now requires health, life and retirement insurance. Credit cards, personal checks, automatic teller machines and other financial services are seen as necessities, not privileges. Individuals now have opportunities to move, become educated and seek recreation. These are only a few examples of what American people have come to identify as essentials of life.

Third, another major reason that goods production has declined as a job generator in the United States is the changing world economic structure. In recent years, manufacturing jobs have been escaping the United State at an increasing rate (Drucker, 1980; Naisbitt, 1982). As a given industry's manufacturing tasks become more standardized and its technology ages, its firms begin to seek more favorable economic climates abroad. For example, more and more textiles, leather products, steel, automobiles and radios are produced outside of the United States.

FUTURE NATIONAL EMPLOYMENT GROWTH

Sources of future employment growth in the U.S. are likely to be different than those of the past. Projected employment growth by the Bureau of Labor Statistics shows that from 2008 to 2018 goods-producing sector employment will decrease by 0.22 percent while the service-producing sector employment will increase by 12.54 percent (Table 2). Of interest, within the goods-producing sector, only the construction sector is forecasted to realize an increase in employment while employment in the agricultural, mining and manufacturing sectors are forecast to decline.

Goods-producing industries, however, will continue to play a major role in any U.S., state, or county economic development program. In terms of absolute employment, the manufacturing sector continues to be important. The manufacturing sector is forecasted to provide over 12 million jobs nationally by 2018 or roughly 7.4 percent of the expected 166 million total national jobs.

Even more revealing is the forecast national sectoral production values for 2018 (Table 3). Employment or labor is only one factor that is used in production output. Capital is the other factor which may increase production efficiency. From Table 3, the outputs for all industries in the goods-producing sector other than mining are forecast to increase by 2018. The manufacturing sector, even though forecast to employ less, is expected to remain the nation's leading economic sector in value of output in 2018.

Table 2. Total Employment by Major Sector in the U.S., 2008 and Projected 2018.

Sector	2008	2018	
	(Thousands)		Percentage Change
Goods - Producing	23,461.4	23,410.5	-0.22
Agriculture	2,098.3	2,020.1	-3.73
Mining	717.0	613.2	-14.48
Construction	7,214.9	8,552.0	18.53
Manufacturing	13,431.2	12,225.2	-8.98
Service - Producing	116,451.7	131,053.1	12.54
Utilities	559.5	500.5	-10.55
Wholesale Trade	5,963.9	6,219.8	4.29
Retail Trade	15,356.4	16,010.4	4.26
Transportation and warehousing	4,504.9	4,950.4	9.89
Information	2,996.9	3,115.0	3.94
Financial Activities	8,145.5	8,702.7	6.84
Professional and business services	17,778.0	21,967.9	23.57
Educational services	3,036.5	3,842.0	26.53
Health care and social assistance	15,818.7	19,815.6	25.27
Leisure and hospitality	13,458.7	14,601.1	8.49
Other services	56,425.1	67,368.5	19.39
Federal Government	2,764.3	2,859.1	3.43
State and local government	19,735.2	21,326.7	8.06
Nonagriculture self-employed	9,312.6	9,943.1	6.77
Secondary Wage and Salary Jobs in A	181.7	191.6	5.45
Secondary jobs as self-employed	1,524.3	1,607.3	5.45
TOTAL	150,931.7	166,205.6	10.12

Source: U.S. Department of Labor. [Employment Outlook: 2008-2018](#). Bureau of Labor Statistics, Washington D.C. Monthly Labor Review 132-11, November 2009.

Table 3. Real Output by Major Economic Sectors for 2008, and Projected 2018.

Table 31 Real Output by Major Economic Sectors for 2008, and Projected 2018.			
Sector	Year		Projected Percentage Change
	2008	2018	
-(Billions of 2000 Dollars)-			
Goods Producing	5,370.0	6,609.6	23.08
Agriculture, Forestry, Fishing , and Hunting	292.6	318.9	8.99
Mining	231.5	227.3	-1.81
Construction	860.6	1,140.5	32.52
Manufacturing	3,985.3	4,922.9	23.53
Service Producing	14,789.5	20,322.3	37.41
Utilities	319.2	349.0	9.34
Wholesale Trade	1,063.5	1,777.0	67.09
Retail Trade	1,232.3	1,863.8	51.25
Transportation and Warehousing	678.3	905.9	33.55
Information	1,105.6	1,865.0	68.69
Financial Activities	2,957.1	3,962.4	34.00
Professional and Business Services	2,501.5	3,535.3	41.33
Educational services	155.8	183.6	17.84
Health care and social assistance	1,301.6	1,861.1	42.99
Leisure and hospitality	748.2	884.6	18.23
Other services	462.5	539.2	16.58
Federal Government	759.5	867.6	14.23
State and local government	1,504.4	1,727.8	14.85
Special Industries*	898.8	1,092.6	21.56
TOTAL	21,058.3	28,024.5	33.08

*Consists of nonproducing accounting categories to reconcile the input-output system with NIPA accounts.

Source: U.S. Department of Labor. Employment Outlook: 2008-2018. Bureau of Labor Statistics, Washington D.C. Monthly Labor Review 132-11, November 2009.

Comparing Tables 2 and 3, manufacturing will continue to play an important role in many community economies. Shifts in agriculture and natural resource related production will also have important impacts (both positive and negative) on many rural and urban communities. It is clear that expansion of the goods-producing sector will continue to be an important part of any economic development strategy. However, it will no longer be the dominant force it once was.

TRENDS IN NATIONAL, STATE OF NEVADA, AND WESTERN NEVADA DEVELOPMENT DISTRICT SOURCES OF TOTAL PERSONAL INCOME

As with employment, the national trends of total personal income have changed from goods-producing to service-producing industries. It is also helpful to compare and contrast changes at the state and county level. Through such comparisons local economic development initiatives can be formulated which move with national trends or others that are counter-cyclical. Local institutions, tax laws, labor characteristics or natural endowments may dictate local economic development targets that either flow with or counter to national trends.

From Table 4, the share of total national personal income derived from the manufacturing sector has declined from 2001 to 2010. However, nationally, the service sector has realized an increased proportionate share of total personal income.

Also from Table 4, the state of Nevada has a smaller proportionate share of total state personal income from the manufacturing sector and, like the national trend, manufacturing's proportionate share statewide decreased from 2001 to 2010. For the State of Nevada, the sector with the largest proportionate share of total state personal income is the accommodation and food services sector, which is much larger than the nation because of the large casino gaming sector within the state.

Table 4. Proportionate Share of Total Personal Income for the United States, State of Nevada, and Western Nevada Development District, 2001 to 2010.

Sector	UNITED STATES		STATE OF NEVADA		WNDD	
	2001	2010	2001	2010	2001	2010
	-----Percent-----					
Agriculture	0.57	0.58	0.17	0.13	0.79	0.70
Mining	0.60	0.62	1.04	1.19	0.83	1.13
Utilities	0.59	0.55	0.58	0.51	0.51	0.47
Construction	4.75	3.60	7.59	4.75	5.16	2.58
Manufacturing	9.42	6.70	3.17	2.43	7.29	5.56
Wholesale Trade	3.73	3.43	2.84	2.37	1.76	1.17
Retail Trade	4.93	4.16	5.50	4.66	5.39	4.52
Transportation and Warehousing	2.57	2.22	2.45	2.78	0.93	2.32
Information	2.82	2.21	1.56	0.89	0.59	0.54
Finance and Insurance	5.25	4.86	4.37	3.42	2.81	2.29
Real Estate and Rental and Leasing	1.69	1.11	1.98	1.28	1.13	0.79
Professional, Scientific, and Technical Services	6.37	6.66	4.35	4.62	3.08	2.91
Management of Companies and Enterprises	1.57	1.68	1.35	2.08	0.79	0.61
Administrative and Waste Management Services	2.67	2.66	3.09	2.64	2.11	1.46
Educational Services	0.87	1.10	0.19	0.40	0.09	0.17
Health Care and Social Assistance	6.25	7.51	4.74	5.73	3.32	5.57
Arts, Entertainment, and Recreation	0.77	0.76	1.41	1.07	1.33	1.36
Accommodation and Food Services	2.09	2.09	12.96	10.79	7.20	3.92
Other Services, Except Public Administration	2.57	2.48	2.11	2.13	2.26	2.42
Government, Federal	2.99	3.75	2.28	2.94	2.88	3.34
Government, State & Local	8.10	8.59	7.71	8.58	13.69	13.13
Dividends, Interest, and Rents	16.45	15.55	19.01	19.41	24.35	24.41
Transfer Payments	12.39	17.13	9.56	15.20	11.70	18.63
TOTAL	100.00	100.00	100.00	100.00	100.00	100.00

Sources: U.S. Department of Commerce. "Regional Economic Information System." Bureau of Economic Analysis: Washington, D.C. May 2012. Author's Calculations for WNDD.

Sectoral proportionate shares of total county personal income for the Western Nevada Development District (WNDD) are shown in Table 4. The proportionate share of total WNDD personal income from the mining sector is much larger than the national and state values. Contrary to the national trend, the proportionate share of total personal income for the mining sector in the WNDD and the state have increased from 2001 to 2010. Overall, the State of Nevada receives a larger share of its personal income from the service sector than the national average, while the WNDD receives a smaller share. Unlike the national service sectors, the proportion of income coming from the service sectors in Nevada and the WNDD has decreased from 2001 to 2010.

The share of total personal income provided by dividends, interest and rents and transfer payments at the national, state and WNDD levels is of interest. Nationally, dividends, interest and rents have decreased their share of total personal income from approximately 16.5 percent in 2001 to approximately 15.5 percent in 2010, while for the state of Nevada the proportionate share of total personal income held by dividends, interests and rents has increased slightly from 19 percent in 2001 to approximately 19.4 percent in 2010. WNDD realized a larger proportionate share of personal income from dividends, interests and rents than both the state and the nation, with over 24 percent.

Dividends, interests and rents are primarily incomes received from investments in financial instruments and real estate. Transfer payments (e.g., Social Security, Medicare, Veteran's pensions) from the government have increased their proportionate share of total personal income significantly at all levels since 2001, nationally by approximately 5 percent, and by almost 6 percent for the State of Nevada. Transfer payments payments in the WNDD have increased even more over this period, from 11.7 percent to over 18.6 percent of all personal income.

Table 5 shows the population of the United States, the State of Nevada, and the WNDD of persons who are less than 65 years of age and 65 years of age and older. Nationally, overall population grew by nearly 10 percent from 2000 to 2010. The population group of persons less than 65 years of age grew nationally by 9.1 percent from 2000 to 2010, compared to a growth rate of 15.6 percent for persons 65 years of age and older. Proportionate share of national population 65 years and older increased from 12.4 percent in 2001 to 13.1 percent in 2010.

Table 5. U.S., State of Nevada, and Western Nevada Development District, Population Under and Over 65 Years of Age, 1980, 1990, 2000 and 2010.

Age Category	U.S.				State of Nevada				WNDD			
	1980	1990	2000	2010	1980	1990	2000	2010	1980	1990	2000	2010
Less than 65 Years	200,946,129	217,621,139	246,430,153	268,916,164	734,737	1,074,202	1,779,328	2,380,283	80,743	103,034	143,689	161,366
Proportion of Population Less than 65 Years	88.7%	87.5%	87.6%	86.9%	91.8%	89.4%	89.0%	88.0%	89.6%	86.3%	85.9%	82.9%
65 Years and Older	25,599,676	31,088,734	34,991,753	40,433,525	65,756	127,631	218,929	324,359	9,339	16,322	23,673	33,297
Proportion of Population 65 Years and Older	11.3%	12.5%	12.4%	13.1%	8.2%	10.6%	11.0%	12.0%	10.4%	13.7%	14.1%	17.1%
TOTAL	226,545,805	248,709,873	281,421,906	309,349,689	800,493	1,201,833	1,998,257	2,704,642	90,082	119,356	167,362	194,663

Source: U.S. Department of Commerce. US Census: State of Nevada, 1980-2010. Bureau of Census, Washington, D.C., 2010.

Table 6. Educational Attainment for Population 25 Years of Age and Older for the U.S., State of Nevada, and Counties in the Western Nevada Development District, 1980, 1990, 2000, and 2010.

	1980			1990			2000			2010		
	Population 25 Years of Age and Older	High School Grad or Higher	Bachelors Degree or higher	Population 25 Years of Age and Older	High School Grad or Higher	Bachelors Degree or higher	Population 25 Years of Age and Older	High School Grad or Higher	Bachelors Degree or higher	Population 25 Years of Age and Older	High School Grad or Higher	Bachelors Degree or higher
United States	226,546,000	66.5%	16.2%	158,868,436	75.2%	20.3%	182,211,639	80.4%	24.4%	199,726,659	85.0%	27.9%
State of Nevada	479,601	75.5%	14.4%	789,638	78.8%	15.3%	1,310,176	80.7%	18.2%	1,733,764	84.3%	21.8%
WNDD	56,113	76.2%	13.4%	80,136	81.3%	14.9%	113,827	84.7%	17.4%	135,066	87.9%	19.1%
Churchill County	8,246	71.6%	11.3%	11,318	79.5%	13.1%	15,167	85.1%	16.7%	16,407	87.7%	18.2%
Douglas County	12,640	85.1%	17.2%	18,882	87.3%	20.0%	29,279	91.6%	23.2%	34,150	91.2%	25.9%
Lyon County	8,372	70.4%	8.5%	13,333	75.2%	9.4%	22,863	81.5%	11.3%	34,574	85.8%	12.7%
Mineral County	3,775	62.4%	7.3%	4,109	73.1%	9.1%	3,527	77.1%	10.1%	3,793	86.3%	8.2%
Pershing County	2,043	64.8%	6.3%	2,644	73.1%	7.2%	4,498	75.9%	8.7%	5,109	79.4%	12.4%
Storey County	954	81.8%	15.6%	1,787	84.4%	17.6%	2,540	86.7%	18.0%	3,021	91.8%	13.9%
Carson City	20,083	78.5%	15.8%	28,063	82.7%	16.3%	35,953	82.5%	18.5%	38,012	88.0%	21.6%

Sources: U.S. Census Bureau, U.S. Census: Nevada 1980-2010, 2006-2010 American Community Survey

For the State of Nevada, population grew by 35.4 percent between 2000 and 2010. This rate of growth made Nevada the fastest growing state in the union. The population group of persons less than 65 years of age for the State of Nevada grew by 33.8 percent from 2000 to 2010 compared to a growth rate of 48.2 percent for persons 65 years and older. Proportionate share of state population 65 years and older increased from 11 percent in 2000 to 12 percent in 2010.

The WNDD saw its population grow by about 15.1 percent between 2000 and 2010. The population group of people less than 65 years of age in the WNDD increased by 11.1 percent from 2000 to 2010, while the number of people 65 years and older grew by 40.6 percent. The proportionate share of population 65 years and older increased from 14.1 percent in 2000 to 17.1 percent in 2010, faster than the proportionate share of the state and nation.

Table 6 shows the educational attainment of residents of the United States, the State of Nevada, the WNDD, and individual counties within the WNDD from 1980 to 2010. Nationally, the proportion of the population with high school diplomas and bachelors degrees have increased steadily over the last few decades. The proportion of the U.S. population with at least a high school diploma has increased from 66.5 percent in 1980 to 85 percent in 2010, with the proportion holding at least a bachelors degree increasing from 16.2 percent to 27.9 percent over the same period.

The State of Nevada has also seen increases in the proportion of the population with at least a high school diploma and those with at least a bachelors degree; however, at a slower pace than the nation. Prior to 2010, the State had a greater proportion of population graduating from high school than the national average, with 75.5 percent receiving a diploma in 1980. By 2010, the proportion of Nevadans graduating from high school increased to 84.3 percent. Nevada has historically had a lower proportion of the population than the national average holding a bachelors degree or higher, with 14.4 percent in 1980 and 21.8 percent in 2010.

The WNDD has a larger proportion of the population with at least a high school diploma than both the state and the nation, but a lower proportion with a bachelors degree or higher. It should be noted, however, that there is significant variation within the WNDD, especially for the proportion of the population holding a bachelors degree or above. In 2010, all of the WNDD except Pershing County had a higher proportion of high school graduates than the nation. While Douglas County had a larger proportion of its population than the national average holding a

bachelors degree or above in 1980, by 1990 all of the counties in the WNDD were below the national average. In 2010, Douglas County had over 25 percent of its population holding a bachelors degree or above; whereas, Carson City was the only other county with more than 20 percent, and Mineral County had only 8.2 percent of its population holding a bachelors degree or above.

Variables Influencing Employment and Income

Changes in a community's level of employment and income are influenced by five interconnected variables:

- (1) the migration of employers;
- (2) the change in employment size of existing firms;
- (3) the birth or death of firms;
- (4) the location of private expenditures;
- (5) public expenditure patterns

Each can have a positive or negative influence on employment in a specific geographic area. (Table 7).

Table 7. Variables Influencing Employment and Income

Variables	Positive	Negative
Migration of employers	Firms move into an area	Firms move out of an area
Change in size of existing firms	Expansion in number of Employees	Contraction in number of employees
Births or death of firms	Firms are started	Firms die
Location of private expenditures	Goods and services are purchased locally	Good and services are purchased outside of area
Public expenditures patterns	Public expenditures are made in an area	Tax payments are sent out of an area

Migration: Birch (1979) indicates that U.S. firms rarely move their entire operations. The migration of employment opportunities generally takes the form of new branch plants, offices or other facilities. Between 1976 and 1980 new business establishments (including both new branches of affiliated firms and local startups) created about the same number of jobs as expansions of firms already in a community. In the same period, branch firms created 65 percent of the net change in U.S. private sector employment (Miller, 1985). Local governments do not always benefit, depending on associated public costs and tax legislation. But the migration of a firm out of an area almost always produces negative results. Not only are jobs and income lost, but tax revenues may be sharply reduced, while the obligation to pay off public debt continues (Detomasi and Gartrell, 1984; Summers, 1984; Summers et al., 1976).

Change in Size: Expanding firms have been the largest source of employment growth in most states. The often-repeated “80 percent of new jobs come from the growth of existing firms” is, if anything, an understatement. Armington and Odle of Brookings found that on average, each percentage point of net employment growth is the sum of 1.1 percent growth due to births of new firms, -1.0 percent due to deaths of old ones, 1.7 percent due to expansion and - 0.8 percent due

to production cutbacks or contractions (Armington and Odle, 1982). The fact that the contraction of existing firms also has a major effect on economic well-being has often been neglected. In recent years, many community economic development strategies have focused on business retention and expansion programs (Morse et al., 1985).

Births and Deaths of Firms: A number of recent studies have placed great emphasis on the importance of the birth of new firms, especially small ones, in the creation of jobs (Schwebe and Friedman, 1983). Davis et al. (1994) found from 1972 to 1988 for the manufacturing sector that firms with 20 employees or less had an annual job creation rate of 16.5 percent. This rate drops to 9.3 percent for companies with 500 to 999 employees and to 6.3 percent for firms who employ over 5,000 people. However, small companies also destroy jobs faster than big firms. Job destruction rates for firms with fewer than 20 employees average 18.8 percent. It is clear that independent firms both large and small are major contributors to employment growth through birth and expansion. Small independent firms also develop a significant portion of new high technology. A study produced for the Small Business Administration indicates that small firms produce 2.5 times as many innovations as large firms, relative to the number of people employed (Gellman Research Associates). More than half of the technological advances in this century are credited to individual inventors or small companies. (Environment and Management Report, 1967). The 1980's and 1990's have been heralded by some as the age of the entrepreneur. Some argue that it is the only true generator of new jobs and income (Inc. Magazine, 1985). While there isn't complete agreement as to which factors encourage expansion of entrepreneurship in a specific geographic area, community economic development strategies should encompass this goal.

Private Expenditures: In an economic system dominated by private enterprise, consumers and industrialists are free to purchase goods and services any place they choose. Where they buy has a direct influence on employment and income in various geographic areas. If they acquire a share of their needs in other communities, states or nations, the immediate consequence is the loss of employment and income opportunity at home. Since no community can produce everything its residents need, the long-run consequence of purchase patterns is a matter of trade

balance. Local employment and income will be improved by anything that captures more of the purchases of local citizens and firms as well as those from outside of the community; this produces a positive trade balance. The converse is equally true.

Public Expenditures: The fifth variable with a profound influence on a community's economic well-being is public expenditures. In most U.S. communities, individuals and businesses pay a wide range of taxes, most of which go to wider governments (county, state and nation). A significant proportion of these funds are used to maintain the services of these broader governments (e.g. social security, national defense, highways, universities). Most of these funds are spent within specific communities to maintain services (i.e., streets, schools, police protection). Some of the rest are returned through grants, etc. for community purposes. Funds which are returned to the community, either as direct government expenditures or as grants, have a positive effect on employment and income. Communities which have a net outflow - that is, that pay more in taxes to wider governments than they get back in expenditures - lose employment and income. The potential effect is large. An indication of this is the fact that government employment (including federal, state and local) accounted for 12.34 percent of U.S. personal income in 2010. Government transfer payments, dominated by social security, Medicare and Medicaid, accounted for 17.13 percent of U.S. personal income in 2010 (see Table 4). Together nationally they are a larger source of personal income than manufacturing.

Framework for Policy Development

Community economic development planners should recognize that each of the five aforementioned variables have both positive and negative impacts on employment and income. Policy development does not take place in a vacuum. To properly exploit all community economic development options, policy makers need to consider four things:

- 1) Values
- 2) Goals
- 3) Resources
- 4) Opportunities for action.

Each individual and group of people (community, state and nation) brings a set of values to community economic development policy-making. For example, two values usually considered in community economic decisions are *efficiency and equity*. Efficiency calls for decisions which result in the optimum return for the community as a whole; equity leads to decisions aimed at a "fair" distribution of costs and benefits. Both strongly influence public policy choices. Other influential values have to do with the role of public intervention in the economy and that of citizen participation in public choice. Every individual, community, state and agency has a different set of values. Values are critical in determining what policies are acceptable.

Policy-makers must also analyze the resources which are available. These include both human and capital resources - not only those which are already in the community but also those acquirable from outside. Some strategists suggest that most economic development can be accomplished by simply using existing community resources more wisely. This underestimates the potential value of external private and public funds as well as technical know-how. Smaller communities are undoubtedly at a disadvantage from a resource standpoint, so their development strategies must differ from those in larger areas.

Goal setting should come early in policy development. Goals provide a focus for specific actions. Most successful economic development efforts make an effort to get citizens involved in setting goals. That is not to say that individual or small-group goal-setting and action cannot lead to more jobs and income. In fact, necessary change almost always requires individual effort. But if citizens participate, there's a better chance that the concerns and interests of the greatest number of people will be considered. It may also prevent the introduction of unnecessary barriers to economic change. Clear goals are a must in order to evaluate options against desired outcomes.

Although the preceding section lists only five general variables that influence employment and income, in most cases, policy makers have a wide range of courses of action from which to choose. Most actions influence more than one variable. Something that encourages growth of existing small business is likely to encourage entrepreneurship as well. A policy which discourages outside firms from locating branch plants in a community may also

discourage local private expenditure. This argues for a carefully thought out, comprehensive community economic development policy.

Community Economic Development Strategies

Which strategies are chosen for a community's economic development plans will depend on the area of coverage (community, state, nation) and on the resources and goals of the policymakers. Strategies for increasing employment and income fall into five general categories:

- 1) improve efficiency of existing firms
- 2) improve ability to capture dollars
- 3) attract new basic employers
- 4) encourage business formation
- 5) increase aids received from broader units of government

The following pages focus primarily on specific strategies for *local* community action. A similar list could be developed for action at the state and national level. Public governments at these levels have more latitude. For example, they can create financial institutions, target their expenditures to specific geographic areas and citizen groups, support broader promotion and management education efforts and modify tax environments. They can focus on a specific variable that influences income and employment. Comprehensive community economic development policies at the community, state and national level are increasingly necessary but not yet a reality.

Improve Efficiency of Existing Firms: As firms become more efficient, they become more competitive in regional, state and national markets. The greater their efficiency, the more net income they can return to the community. The ability to stay competitive is a firm's best guarantee of being able to stay in business or expand in a specific locality. Efficiency is just as important to firms in industries in which total employment is declining. The most efficient of these can survive longest.

Communities can do various things to help firms improve their efficiency:

- 1) Organize educational programs to strengthen the management capacities of existing firms. Management is the factor most closely linked with business success or failure. Providing high quality management education at a low cost may be one of the most effective things a community can do to assure economic development.
- 2) Start a business and industry visitation program in which community leaders visit business executives on a regular basis in order to uncover limitations to growth. All businesses, not just manufacturing, should be included.
- 3) Encourage business growth by identifying capital sources. Small businesses are especially sensitive to capital availability. If local financial institutions are aggressive participants in local economic development efforts, deserving businesses can usually find adequate debt capital. Equity capital may be less readily available. Organized informal and formal capital pools are great stimulants to economic expansion.
- 4) Sponsor educational programs in science and technology to keep businesses aware of the latest technology in their field. Local universities and technical schools will usually cooperate in such efforts.
- 5) Improve the quality of the local work force by providing vocational and technical education, employment counseling and supportive social services. For example, parents who are preoccupied with the general well-being of their preschool children are seldom as productive at work; good day-care may be the answer. Constructive community action can be helpful.
- 6) Provide local and regional services that compete in quality and price with those of other communities. This can improve business efficiency and open access to nonlocal markets. Communications is a good example. Cities, villages and towns with out-dated telephone systems present a major barrier to an increasingly computer-dependent society.
- 7) Sponsor business and industry appreciation events. These do little "per se" to improve operating efficiency, but they can encourage business leaders to stay in the community and to expand. At minimum they make management feel more a part of the community, adding a positive to the intangibles of business location.

Improve Ability to Capture Dollars: In every community, farmers, the self-employed, workers, retirees and businesses of all types control a substantial amount of the funds with which

purchases will be made. Every dollar spent in the community, whether for retail and wholesale goods and services, or for other industrial inputs, adds to the community's employment and income. At least some of these dollars will be re-spent in the community. In contrast, dollars spent outside won't have this immediate positive impact on employment and income; nor will they have the important internal multiplier effect. Thousands of people pass by some communities on interstate highways, or visit nearby tourist attractions. The dollars spent locally by non-local people is as valuable as those generated by the exports of goods.

Communities can take a number of steps to capture these dollars;

- 1) Survey consumer needs and buying habits to identify the market potential of retail and service outlets. Once opportunities are identified, individuals or firms can be encouraged to do more specific market and financial feasibility analysis. Communities can also provide support mechanisms which help firms conduct difficult business analyses.
- 2) Analyze and renew downtown shopping districts. Sophisticated, costly plans are seldom implemented without early and active merchant and local government participation in the entire process. State and national historic preservation programs can often provide funding.
- 3) Help employers develop employee training programs to improve the quality of service. Friendly and efficient service is the cornerstone of all successful business.

Attract New Basic Employers or Export Industries: Bringing new basic employers to a community will add employment and income directly. Through the multiplier effect, it may also add other jobs and income. Basic employers can include manufacturers, nonmanufacturers such as tourist attractions, insurance headquarters, computer service bureaus, warehouses and nonlocal government. But use care in estimating the potential employment and income effect of new employers. Many of the jobs are apt to be taken by new immigrants or people who live in neighboring communities. Multipliers are seldom as high as hoped.

Nonetheless, community leaders can take a number of steps to attract employers:

- 1) Develop local industrial, office or commercial sites and public services, and provide specific information on available labor. Once they have decided where to locate, businesses want to set up shop and start operating in a hurry. Having well-prepared sites and facilities available

speeds up this process. But the community has to weigh the cost of these investments against the likelihood of attracting a new industry.

- 2) Develop community and regional facilities to provide transportation, recreation, communication, business services, etc. These not only attract new employer; they also benefit existing businesses and prospective entrepreneurs. Businesses are giving such facilities more and more weight when selecting a location. Natural resource and market access are becoming relatively less important. Conditions which make a community a nice place in which to live are growing in importance. Generally they are strongly influenced by public or quasi-public governments.
- 3) Help provide capital resources. Reduced interest rates through revenue bonds and other incentives have become widespread. Large firms often look for this type of community assistance as a way of reducing the cost of construction of new facilities. Giveaways or temporary tax reductions seldom play a significant role in location.
- 4) Consider targeted searches for firms which might be interested in developing a local branch operation. Admittedly, such searches are long-shots. Nonetheless the process of becoming well-prepared to seek out prospective employers can also help businesses already in the community. The most desired types of employers can be identified through careful study.
- 5) Identify specific public programs, projects, offices, facilities and other services which could be located nearby and lobby to get them. State and national governments are significant employers. Programs and facilities are constantly changing. These represent a real growth opportunity.
- 6) Form organizations such as industrial development corporations. It is important that local government be involved in these efforts, but the flexibility of nongovernmental organizations is often useful. For instance, an industrial development corporation may move faster than a local government in taking options on land, or building streets in an industrial park. Communities must be careful to avoid giving something to attract a firm that they would not want to give existing businesses.

Encourage Business Formation. There is a continuing need for new businesses to meet changing demands resulting from population growth or evolving goods and services (video recorders, outpatient care or fast foods, for example). A new business can mean new income and

employment as well as expanded trade with local businesses. It can also capture sales which might otherwise go to other communities.

Historically, communities have not done much to take advantage of this opportunity. There are a number of ways to correct this omission:

- 1) Form capital groups to invest private funds locally. In the beginning, entrepreneurs usually rely on their own financial resources, or that of family and friends. But they soon need more capital. Financial institutions are usually willing to provide debt capital to familiar businesses when loans can be collateralized. The problem comes with unfamiliar types of businesses, or those usually considered high risk. Having a local capital pool for debt or equity investment may provide the critical ingredient for success for such enterprises. These pools can be informal arrangements, or more formal, such as community development corporations. It is important that potential entrepreneurs know the pool exists.
- 2) Provide counseling and intensive education for those interested in forming new businesses. First-time entrepreneurs seldom know much about business management, marketing or business plans. Nor do they know of government regulations which would affect them. A local support structure or the Nevada Small Business Development Center can be very helpful.
- 3) Study the market potential for new retail, wholesale, service and industrial input-providing businesses. This points out opportunities for new local establishments. General insights can be acquired through analysis techniques such as *input-output*, *location quotients*, *population/employment ratios*, and *trade area capture*. More detailed analysis will be required to identify real opportunity in the sectors which look promising.
- 4) Be aware that adversity often stimulates entrepreneurship. Plant closings or lay-offs get people interested in going into business for themselves. Local leaders should be sensitive to this and encourage and support entrepreneurship at these critical times.
- 5) Adopt an encouraging community attitude towards entrepreneurship. Many new businesses fail after a short period of time. Highly successful small business operators have often failed once or twice before finally achieving their goals. Communities should recognize this pattern and encourage prospective entrepreneurs to try again.

- 6) Provide the same services and incentive to businesses in formation as to businesses already in existence or those being sought from outside.

Increase Aids Received from Broader Governments. A community may strive to get back some of the dollars taxed away by broader governmental units, and if possible, to acquire dollars taxed in wealthier areas. Not only are state and national governments major employers, but they return large quantities of funds to local governments through grants and aids. These funds do not always come by an aid formula. Often the local government must specifically request them. Social Security, Medicare and Medicaid payments are also major sources of personal income. Communities must be sensitive to all these sources of income.

Once again, there are strategies which communities can follow to attract these funds.

- 1) Organize education and other program efforts to assure the correct use of public assistance programs for the elderly, handicapped and others who cannot work. People do not always know what kinds of state and national financial assistance is available. Getting such assistance almost always requires some form of supportive structure.
- 2) Provide well-organized public transportation, meal service, outpatient health care, recreation and other services focused on the elderly. These are among the things retirees consider when choosing a place to live. Most of these activities are within the financial grasp of well-organized small communities. Such efforts go a long way toward keeping the buying power of the "silver-haired industrial base" in the community. That buying power not only includes transfer payments, but an equally large amount of dividends, interest and rent.
- 3) Obtain aids from broader governments whenever possible (i.e., streets, parks, sewers) by actively monitoring government programs; local officials can lend valuable support in this effort. It is almost impossible for any individual to be aware of all the programs which might provide financial or other assistance. This is a task which can be clearly divided by a organization in cooperation with local government officials.
- 4) Support political activities which ensure that the community's concerns get fair treatment from broader governmental units. Monitoring and positive political effort on an ongoing basis are necessary. Once again, this requires organization.

Summary

There is widespread interest in the generation and dissemination of appropriate community economic development policy at all levels. This interest is undoubtedly an outgrowth of the current concerns of high unemployment, international competition, and reduced incomes of many persons in the United States. Critical to addressing these issues are the development of comprehensive policies appropriate to the changing times.

The goods-producing sector of the economy is becoming less important as a source of new jobs. The greatest increase in U.S. employment over the next few years will come through expansion of establishments already in the community, new branches of larger firms and new business starts. Small independent enterprises will generate much of the growth. Government employment, transfer payments and property income are becoming equally important as sources of family livelihood.

A comprehensive community economic development policy must consider the variables which influence employment and income: migration of employers, change in size of existing firms, births and deaths of firms, location of private expenditures, and public expenditure patterns. Communities can follow a variety of strategies to influence each of these variables. In choosing a set of strategies, communities should take their values and resources into account.

None of these strategies are a sure thing. No amount of action will guarantee growth in employment and income. Nor will a lack of action guarantee that there will be no growth. But a concentrated effort, following comprehensive community economic development policies, offers the best hope of meeting desired goals.

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